

DOCUMENT RESUME

07337 - [B2567583]

[Potential Savings to the Social Security Administration of Rounding Benefits Payments to the Nearest Penny]. HRD-78-160; B-164031(4). September 8, 1978. 3 pp.

Report to Rep. James A. Burke, Chairman, House Committee on Ways and Means; Social Security Subcommittee: by Elmer B. Staats, Comptroller General.

Issue Area: Federally Sponsored or Assisted Income Security Programs: Payment Processes, Procedures, and Systems (1309).
Contact: Human Resources Div.
Budget Function: Income Security: Public Assistance and Other Income Supplements (604).
Organization Concerned: Department of Health, Education, and Welfare; Department of Labor; Social Security Administration.
Congressional Relevance: House Committee on Ways and Means; Social Security Subcommittee; Senate Committee on Finance.
Rep. James A. Burke.
Authority: Social Security Act (42 U.S.C. 415(g)). Social Security Amendments of 1977.

There is a potential for significant savings to the social security system if benefits were calculated to the nearest penny rather than rounded up to the next highest dime as required by law. An estimated savings of \$386 million would accrue to the Retirement and Survivors Insurance Program from calendar years 1980 through 1986 if section 215(g) of the Social Security Act were amended to provide that benefits be calculated to the nearest penny. The estimate of \$386 million in savings assumed an average savings of \$0.045 per person per check in the first year and an increase of \$0.045 per check for each year the beneficiary remained on the rolls since one cost of living adjustment would be made each year. A somewhat smaller savings would also be achieved for the Disability Insurance Program. A recent study by the Social Security Administration estimated that implementing the new method of calculating benefits would involve a one-time cost of about \$700,000 for computer system redesign and about \$600,000 of annual recurring cost for manual calculations and handling public inquiries. To minimize administrative problems and avoid reducing benefits to current beneficiaries, the Social Security Administration believes that the change should be implemented concurrently with a general benefit increase. Section 215 of the Social Security Act should be amended. (RRS)



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

7583

B-164031(4)

SEPTEMBER 8, 1978

The Honorable James A. Burke
Chairman, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Earlier this year we discussed with your staff the potential savings to the Social Security system if benefits were calculated to the nearest penny, rather than rounded up to the next highest dime as required by law. In appraising the benefits derived from changing the law, we computed a potential savings of about \$386 million to the Retirement and Survivors Insurance program for the period 1980 through 1986, and we believe that a savings could also be achieved in the Disability Insurance program. Therefore, we recommend that section 215(g) of the Social Security Act (42 U.S.C. 415(g)) be amended to achieve these savings.

SAVINGS BY CALCULATING PAYMENTS
TO THE NEAREST PENNY

Section 215(g) states that the amounts of any primary insurance and monthly benefit which are not a multiple of \$0.10 shall be raised to the next higher \$0.10. It appears that this provision enacted under the 1950 Social Security Amendments was for administrative convenience only.

The primary insurance amount is the basic figure from which almost all benefit payments are derived. Section 215(g) affects payment amounts many times during the years of entitlement. For example, the monthly benefit amount is rounded when (1) the worker's benefit is computed or recomputed, (2) the benefit is adjusted for the worker's dependents, and (3) there is a cost of living increase. Each calculation is made on the rounded amount from the previous calculation. Therefore, benefits are increased with each adjustment and the result is again rounded up to the next multiple of \$0.10. Although the Social Security Amendments of 1977 make certain changes in the method of computing benefits, they will not change the existing rounding provision.

HRD-78-160
(105030)

As shown in the following schedule, we estimate a savings of \$386 million would accrue to the Retirement and Survivors Insurance program from calendar years 1980 through 1986 if section 215(g) were amended to provide that benefits be calculated to the nearest penny. A savings, although somewhat smaller, would also be achieved for the Disability Insurance program.

<u>Year</u>	<u>Yearly savings</u>
1980	\$ 16,260,000
1981	28,920,000
1982	43,848,000
1983	55,772,000
1984	59,168,000
1985	79,968,000
1986	<u>92,368,000</u>
Total	<u>\$386,324,000</u>

In estimating the \$386 million savings, we assumed an average savings of \$0.045 per person per check in the first year and an increase of \$0.045 per check for each year the beneficiary remained on the rolls since one cost of living adjustment would be made each year. For example, the monthly savings per check would be \$0.045, the first year; \$0.09, the second year; and \$0.135, the third year.

Our calculations of the savings consider only one adjustment each year. In fact, some individuals have more than one adjustment per year and both the initial adjustment and each additional one are rounded up to the next highest \$0.10. Accordingly, our estimated annual savings should be considered a conservative figure.

In addition, a recent study by the Social Security Administration projected substantial savings if benefits were calculated to the nearest penny. This study also estimates that implementing the new method of calculating benefits would involve a one-time cost of about \$700,000 for computer system redesign and about \$600,000 of recurring annual cost for manual calculations and handling public inquiries. To minimize administrative problems and avoid reducing benefits to current beneficiaries, the Social Security Administration believes that the change should be implemented concurrently

with a general benefit increase. Although the Social Security Administration's cost estimate for implementing the new method appears reasonable, we did not verify the dollar amounts used in its study.

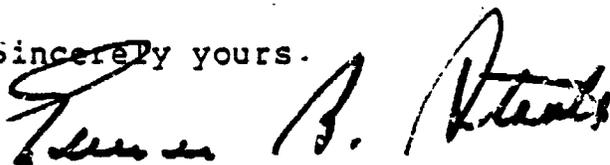
CONCLUSIONS AND RECOMMENDATION

Substantial savings to the Social Security system can be realized by calculating benefit payments to the nearest penny, rather than up to the next higher dime as required by section 215(g) of the Social Security Act. Also, the proposed amendment would provide each beneficiary with the exact payment to which he or she is entitled.

Accordingly, we recommend that section 215 of the Social Security Act be amended as follows:

(g) The amount of any primary insurance amount and the amount of any monthly benefit computed under section 402 or 423 of this title which (after reduction under section 403(a) of this title and deductions under section 403(b) of this title) is not a multiple of \$0.01 shall be rounded to the nearest multiple of \$0.01.

Sincerely yours.



Comptroller General
of the United States